What Investors & Regulators Need from Issuers in Uncertain Times

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2008… remember when?

- Credit crisis
- Diminishing asset values
- Complicated by challenges in the network of obligations
  - Counterparty identification
  - True understanding of counterparty solvency
- Nations became the only lenders of capital, and often the only buyers of toxic assets

And now, Now.

- How does <u>now</u> compare with <u>then</u>?
- Did the global financial crisis improve the resiliency of our financial system?
  - Are we entitled to more information?
  - Do we have better access to that information?
  - Do we have evidence to validate our reliance upon it?
  - What are issuers' obligations for financial system resilience and sustainability?

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Some Thoughts on Fixed Income

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Fixed Income Sectors Under Pressure From COVID-19

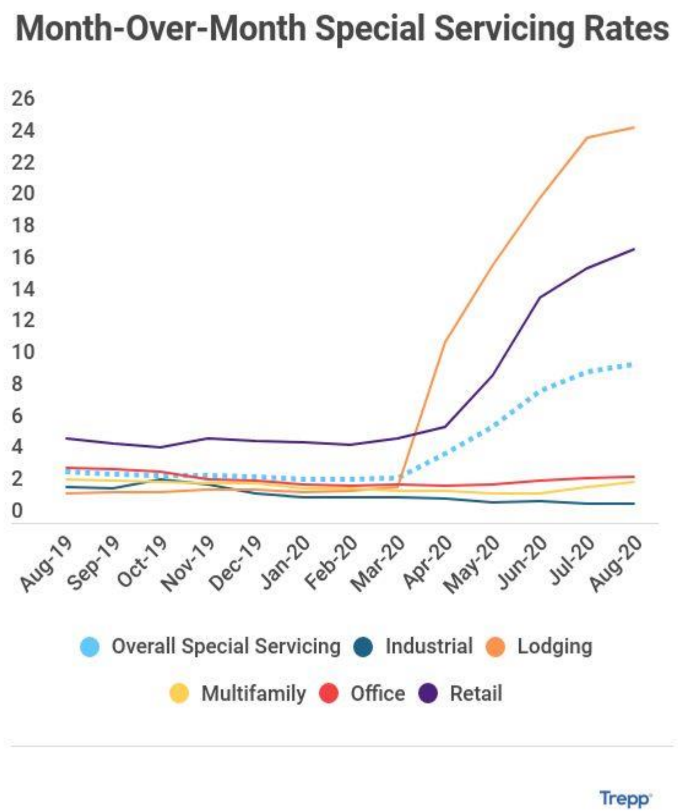
- Leveraged Bank Loans
- Collateralized Loan Obligations (CLOs)
- Collateralized Mortgage Backed Securities (CMBS)

Leveraged Loans and CLOs

- Corporate borrowers in certain industries suffered catastrophic revenue losses and became unable to service their debts
- Many large companies that borrow from bank syndicates are privately owned firms that are not subject to SEC disclosure rules and are not required to produce XBRL financial reports
- Many CLOs are Rule 144A private placements exempt from disclosure requirements
- As a result it is difficult for researchers, regulators and investors to get the “big picture” on CLO risk, i.e. what proportion of CLO collateral consists of loans to companies that face heightened bankruptcy risk

Collateralized Mortgage Backed Securities

- CMBS collateral consists largely of mortgages on shopping malls, hotels and office buildings – all of which have come under pressure due to lockdowns and fears of entering “congregate settings”
- Many mortgages have gone into “special servicing”
- As with CLOs, CMBS are generally exempt from public reporting requirements
- And, as with CLOs, it is hard to determine how much if any systemic risk these securities create



Observations on Municipal Bonds

- Portions of the municipal bond market such as VRDO (Variable Rate Demand Obligations) came under pressure in March
- Since then, the municipal market has been relatively stable
- Revenue losses for most state and local governments have been limited, but there have been exceptions, such as those governments that are highly dependent on Transient Occupancy Tax receipts (e.g., Anaheim, CA)
- The Federal Reserve has provided backup financing to the municipal market as it has done for other fixed income sectors
- However, only two issuers – the State of Illinois and the New York Metropolitan Transportation Authority – have borrowed under the Fed's Municipal Liquidity Facility which is scheduled to expire at the end of the year

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Thank you!